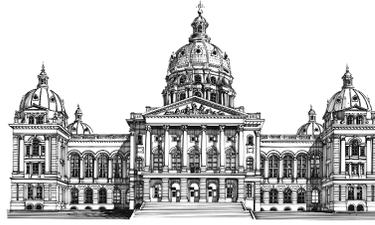

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Road Use Tax Fund Overview - Revised

ISSUE

This *Issue Review* provides background information on the Road Use Tax Fund (RUTF) and the types of programs funded.

AFFECTED AGENCIES

Department of Transportation (DOT)
Department of Inspections and Appeals (DIA)
City and County governments

BACKGROUND

Approximately \$1.0 billion is collected annually and distributed through the RUTF. These funds are primarily used for the construction and maintenance of highways.

The RUTF is primarily comprised of the following revenue sources:

- Taxes on fuels
- Fees collected on vehicle registrations, titles, and driver's licenses
- Use tax collected on motor vehicle purchases
- Vehicle title and registration fees
- Underground storage tank fees
- Driver's license fees
- Motor carrier fines
- Interest income

Except for administrative costs, all vehicle registration fees, license fees, and motor vehicle fuel taxes are constitutionally mandated to be spent exclusively for the construction, maintenance, and supervision of the State's public highways (Section 8, Article VII, Constitution of the State of Iowa). However, the use tax on motor vehicles and equipment is exempt from this constitutional mandate.

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All revenues deposited into the RUTF are distributed by formula to the Primary, Secondary, Farm-to-Market, and Municipal Road Funds, which are used by State and local jurisdictions for the construction and maintenance of roads. However, before the revenues are distributed to the road funds, various allocations and appropriations are made from the Fund for programs, equipment purchases, and department operations (referred to as “off-the-top” allocations).

CURRENT SITUATION

Chart 1 below illustrates the various revenues deposited into the Road Use Tax Fund. As shown in **Chart 1**, approximately 40.0% of FY 2001 revenues were derived from fuel taxes, 34.0% from vehicle registration and title fees, 21.0% from use tax on motor vehicle sales, and 5.0% from other sources:

Chart 1
FY 2001 Road Use Tax Fund Revenues
 (Percentages)

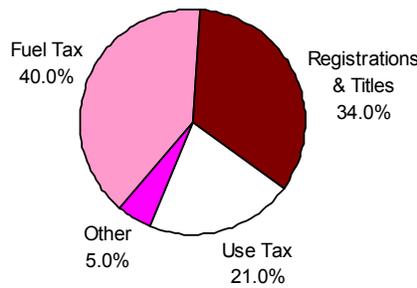


Table 1 below illustrates actual FY 2001 revenues, in addition to the forecast for revenues for FY 2002 – FY 2004.

Table 1
Road Use Tax Fund Revenues
 (Dollars in Millions)

	Actual FY 2001	Estimated FY 2002	Estimated FY 2003	Estimated FY 2004
Motor Vehicle Use Tax	\$ 257.0	\$ 248.6	\$ 244.6	\$ 244.0
Commercial and Industrial Network	-25.9	-24.9	-24.5	-24.4
Underground Storage Tank Loan	-17.0	-17.0	-17.0	-17.0
Dept. of Inspection & Appeals	-1.2	-1.3	-1.3	-1.3
Net Use Tax	<u>\$ 212.9</u>	<u>\$ 205.5</u>	<u>\$ 201.9</u>	<u>\$ 201.3</u>
Motor Vehicle Fuel Tax	\$ 396.5	\$ 388.3	\$ 381.4	\$ 379.4
Registration/Title Fees & Misc.	342.4	352.8	360.4	367.7
Underground Storage Tank Fees	19.4	19.2	19.2	19.2
Driver License Fees	11.8	8.7	10.1	13.3
Interest	10.3	9.8	9.6	9.6
Motor Carrier Fines	2.2	2.1	2.1	2.1
Waste Tire Fees	0.5			
Other	5.6	5.3	9.3	9.3
TOTAL RECEIPTS	<u>\$ 1,001.7</u>	<u>\$ 991.7</u>	<u>\$ 994.0</u>	<u>\$ 1,001.9</u>

NOTE: Numbers may not equal totals due to rounding.

Prior to the use tax revenue being deposited into the Fund, various programs and projects are funded, which reduces the amount of revenue deposited into the Fund.

Table 2 on the following page shows the various “off the top” allocations made from the Fund for FY 2001, in addition to estimated “off the top” allocations for FY 2002 – FY 2004. Several “off-the-top” allocations are deposited directly into one of the four road funds, with the name of the road fund in parentheses. **Table 2** also indicates the amount of revenue available for distribution through the formula after the “off-the-top” allocations are subtracted from the receipts.

All “off-the-top” allocations attributed to a particular road fund are added to the formula allocation for that respective fund. For example, the \$1.5 million “off-the-top” allocation for farm-to-market roads (item two in **Table 2**) is added to the 8.0% formula distribution for the Farm-to-Market Road Fund (item three in **Table 3** on the following page). In FY 2001, 42.0% of the revenue was deposited into the Primary Road Fund, 22.0% into the Secondary Road Fund, 7.0% into the Farm-to-Market fund, 18.0% into the Municipal Road Fund, and 12.0% was distributed as “off-the-top” allocations for other individual programs and projects.

Table 2
Road Use Tax Fund
Off-the-Top Allocations and Appropriations
(Dollars in Millions)

	Actual FY 2001	Estimated FY 2002	Estimated FY 2003	Estimated FY 2004
Total Receipts	\$ 1,001.7	\$ 991.7	\$ 994.1	\$ 1,001.9
Statutory Allocations				
1. Primary (to Primary Rd. Fd.)	\$ 11.5	\$ 11.5	\$ 11.5	\$ 11.5
2. Farm-to-Market (to Farm-to-Market Rd. Fd.)	1.5	1.5	1.5	1.5
3. Secondary (to Secondary Rd. Fd.)	9.6	9.8	10.0	10.3
4. RISE				
State (to Primary Rd. Fd.)	21.4	21.8	22.3	22.8
City	10.7	10.9	11.1	11.4
County	1.1	1.1	1.1	1.1
5. Park & Institutional Roads (to Primary Rd. Fd.)	6.7	6.9	7.1	7.4
6. Secondary & Urban (to Primary Rd. Fd.)	0.5	0.5	0.5	0.5
7. Living Roadway	0.3	0.3	0.3	0.3
8. Railroad Crossing Surface Repair Fund	0.9	0.9	0.9	0.9
9. Railroad Crossing Safety Fund	0.7	0.7	0.7	0.7
10. Secondary Bridge	2.0	2.0	2.0	2.0
11. City Bridge	0.5	0.5	0.5	0.5
12. License Plate Production	2.5	2.5	2.5	2.5
13. Highway Safety Projects	5.2	5.3	5.5	5.7
14. Dr. License Suspension Service	0.2	0.2	0.2	0.2
15. Public Transit (Use Tax)	11.0	11.4	11.9	12.3
16. Motorcycle Education Fund (Use Tax)	0.1	0.1	0.1	0.1
17. County Treasurers Equipment	0.7	0.7	0.7	0.7
18. Fuel Tax Refunds	0.2	0.2	0.2	0.2
Total Statutory Allocations	\$ 87.3	\$ 88.9	\$ 90.6	\$ 92.5
Appropriations				
19. DOT Operating Appropriation	\$ 29.9	\$ 29.9	\$ 29.9	\$ 29.9
20. Drivers License Costs (Polaroid Lease)	2.1	2.1	2.1	2.1
21. County Driver's License Equipment	0.3	0.3	0.3	0.3
22. Weather Information System	0.1	0.1	0.1	0.1
23. NAFTA Coalition	0.1	0.1	0.1	0.1
24. Scale Facilities	0.6	0.6	0.6	0.6
25. Dept. of Management Support Staff	0.1	0.1	0.1	0.1
26. Dept. of Personnel Administration	0.1	0.1	0.1	0.1
Total Appropriations	\$ 33.1	\$ 33.1	\$ 33.1	\$ 33.1
TOTAL OFF-THE-TOP ALLOCATIONS	120.4	122.0	123.7	125.6
TOTAL AVAILABLE FOR DISTRIBUTION (Receipts less Off-The-Top Allocations)	\$ 881.3	\$ 869.7	\$ 870.4	\$ 876.3

NOTE: Numbers may not equal totals due to rounding.

Chart 2 on the following page illustrates the RUTF distributions by percentage. **Table 3** shows the total RUTF distribution by component for FY 2001, in addition to the forecast for revenues for FY 2002 – FY 2004.

Chart 2
FY 2001 Road Use Tax Fund Distributions
 (Percentages)

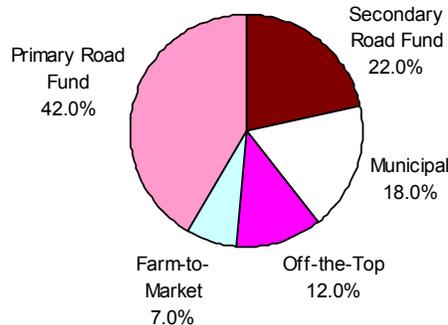


Table 3
Road Use Tax Fund Distribution Summary
 (Dollars in Millions)

	Actual FY 2001	Estimated FY 2002	Estimated FY 2003	Estimated FY 2004
Formula allocations				
Primary Road Fund	\$ 418.6	\$ 413.1	\$ 413.4	\$ 416.3
Secondary Road Fund	215.9	213.1	213.2	214.7
Farm-To-Market Road Fund	70.5	69.6	69.6	70.1
Municipal Road Fund	176.3	173.9	174.1	175.3
Statutory Allocations	87.3	88.9	90.6	92.5
Appropriations	33.1	33.1	33.1	33.1
TOTAL DISTRIBUTIONS	\$ 1,001.7	\$ 991.7	\$ 994.1	\$ 1,001.9

NOTE: Numbers may not equal totals due to rounding.

Table 4 below shows the distribution of the net RUTF revenues available through the formula to the four road funds for FY 2001, in addition to the estimated distribution of revenues for FY 2002 – FY 2004. Current law mandates that 47.5% of these revenues be deposited into the Primary Road Fund, 24.5% to the Secondary Road Fund, 8.0% to the Farm-to-Market Road Fund, and 20.0% to the Municipal Road Fund (Section 312.2, Code of Iowa).

Table 4
Road Use Tax Fund Formula Allocation
 (Dollars in Millions)

	Actual FY 2001	Estimated FY 2002	Estimated FY 2003	Estimated FY 2004
Primary Road Fund (47.5%)	\$ 418.6	\$ 413.1	\$ 413.4	\$ 416.3
Secondary Road Fund (24.5%)	215.9	213.1	213.2	214.7
Farm-To-Market Road Fund (8.0%)	70.5	69.6	69.6	70.1
Municipal Road Fund (20.0%)	176.3	173.9	174.1	175.3
TOTAL FORMULA ALLOCATION	\$ 881.3	\$ 869.7	\$ 870.4	\$ 876.3

NOTE: Numbers may not equal totals due to rounding.

Attachment A illustrates a flowchart summarizing FY 2001 Road Use Tax Fund revenues and allocations.

REVENUE DECLINE

In FY 2001, the RUTF experienced the first revenue decline since 1981. Receipts to the Fund decreased by a total of \$147,000 (0.01%) compared to FY 2000. The Fund experienced decreases in motor vehicle use tax, fuel taxes, driver's license fees, and interest income in FY 2001.

Motor vehicle use tax revenues decreased by \$2.0 million, a 0.9% reduction. The decrease is primarily due to a reduction in new truck and auto sales in FY 2001. New truck and auto sales from July 2000 through June 2001 decreased 9.6% compared to the same period of the prior year. Additionally, the FY 2001 use tax revenues are being compared to FY 2000, which had experienced a 17.4% increase over FY 1999.

Registration and title fees increased \$11.0 million (3.3%) in FY 2001 compared to FY 2000. One possible explanation for the increase involves the overall increase in the value of the pool of vehicles registered in Iowa. However, no information is currently available to track this data.

Fuel tax revenues declined by \$5.6 million (1.4%) in FY 2001 compared to FY 2000. The reduction is attributed to two factors: total fuel sales and an increase in the market share of ethanol.

- Total fuel sales for gasoline, ethanol, and diesel, for the period of July 2000 to June 2001, decreased 31.2 million gallons (1.5%) from the same period of the previous year.
- The sale of ethanol-blended fuel has increased 15.1%, while regular gasoline sales have experienced a decrease of 15.5%. This has caused the market share of ethanol to increase from 45.3% in FY 2000 to 53.0% in FY 2001. Because ethanol is taxed at a penny less than gasoline, increasing the market share of ethanol decreases fuel tax collections. See **Table 5** below.

Table 5
Taxable Gallons of Fuel Sold
July 2000 - June 2001
(Millions of Gallons)

	FY 2000	FY 2001	Change	Percent Change
Gasoline	852.4	720.7	-131.7	-15.5%
Ethanol	705.6	811.9	106.3	15.1%
Diesel	564.7	558.3	-6.4	-1.1%
Total	<u>2,122.7</u>	<u>2,090.9</u>	<u>-31.8</u>	<u>-1.5%</u>
Market Share of Ethanol to Total Gasoline	45.3%	53.0%	7.7%	17.0%

NOTE: Numbers may not equal totals due to rounding.

Other revenue types have experienced a combined decrease of \$3.5 million (6.6%) in FY 2001 compared to FY 2000. Driver's license fees declined \$2.5 million (17.5%), interest income \$2.4 million (19.1%), and underground storage tank fees \$200,000 (1.3%). These reductions were offset by increases of \$1.4 million (28.4%) in other fees and \$300,000 (15.7%) in motor carrier fines.

Table 6 below compares the Road Use Tax Fund receipts for FY 2000 and FY 2001 by revenue source.

Table 6
Road Use Tax Fund Receipts
Year End

(Dollars in Millions)

	FY 2000	FY 2001	Change	
			FY 2000 vs. FY 2001	Percent Change
Motor Vehicle Use Tax	\$ 214.9	\$ 212.9	\$ -2.0	-0.93%
Motor Vehicle Fuel Tax	402.1	396.5	-5.6	-1.40%
Registration/Title Fees & Misc.	331.4	342.4	11.0	3.32%
Underground Storage Tank Fees	19.6	19.4	-0.2	-1.27%
Driver License Fees	14.4	11.8	-2.5	-17.50%
Interest	12.7	10.3	-2.4	-19.06%
Other Fees	4.8	6.1	1.4	28.40%
Motor Carrier Fines	1.9	2.2	0.3	15.68%
TOTAL RECEIPTS	\$ 1,001.8	\$ 1,001.7	\$ -0.1	-0.01%

NOTE: Numbers may not equal totals due to rounding.

FIVE-YEAR FORECAST

Section 307A.2(12), Code of Iowa requires the Department of Transportation to submit an annual report detailing how the Department proposes to improve the State's transportation system over the next five years. The five-year plan is based on projected federal and State revenues, and the associated costs of each project. In determining projected revenues, the Department develops a five-year forecast based on the most recent fiscal year data.

The following is a forecast from the Department projecting RUTF revenues from FY 2002 to FY 2006. The assumptions are based on FY 2001 data:

Overall revenues to the Road Use Tax Fund are estimated to increase 3.0% over the next five years. The revenues are broken down as follows:

- Motor vehicle fuel tax revenues are estimated to decrease 2.0%.
- Use tax revenues are estimated to decrease 15.0%.
- Driver's license fees and titles are estimated to decrease 23.0%.
- Motor vehicle registration fees are estimated to decrease 1.1%.
- Interest income is estimated to decrease 6.8%.
- Underground storage tank fees are estimated to decrease 0.9%.
- Motor carrier registration fees are estimated to increase 22.0%.
- Other receipts are estimated to increase 86.0%.

The five-year forecast is subject to change based on shifts in revenue, inflation, or Congressional or legislative action.

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Road Use Tax Fund Overview
<http://staffweb.legis.state.ia.us/lfb/IRVIEW/irview.htm>
LFB: IRMBM001.Doc/12/06/01/8:40 am/all

Attachment A

Iowa Road Use Tax Fund FY 2001 Revenues & Allocations

(Dollars in Millions)

